THE ORANGE REPORT

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SECOND QUARTER 2015

The Pace of Multifamily Development

Out of the four major food groups of commercial real estate, multifamily has emerged as the asset class most desirable to investors over the last three years. In 2014, Urban class A multifamily dipped to an average capitalization rate of 5.52%, beating out its closest non-multifamily competitor, regional mall retail, by 1.31%.[1] With prices growing steadily since 2010, the cost of purchasing multifamily real estate is now 13% higher than its pre-recession peak in 2007.[4] Demand amongst renters has driven rental rates up and vacancy rates down, leading to a wave of multifamily development that began in 2013 and is now arguably close to reaching its peak. The sheer quantity of new apartment units scheduled to come on line in the next two years has investors talking about an impending implosion of the multifamily sector due to hyper-supply.

The current demand for apartment units is driven by two distinct demographic groups: millennials and empty nesters. Millennials, struggling with student debt payments and a slowly improving job market, have proven slower than previous generations to take on the burdens of home ownership and are opting to rent instead. Empty nesters looking to downsize and simplify their lives have been increasingly giving up their single family residences in favor of the convenience of apartment life. Moreover, many in the latter group are still struggling to repair their credit after the Great Recession and have yet to make the leap back into property ownership. The rate of home ownership in the U.S. is at its lowest point in 26 years according to the most recent report by the U.S. Department of Commerce, having dropped to 63.7% after peaking in 2005 at 69.2%.[9] Though this trend is generally seen as an ill omen for the overall economy, it bodes well for the apartment market.

The recent success of the multifamily sector has brought with it the largest wave of new apartment development since the 1980s. Over the past few decades, multifamily construction starts have averaged around 242,000 annually on a national level.[2] In 2013, that number reached 290,000, and in 2014, climbed to 340,000. The trend continues in 2015 with multifamily housing starts up 14.9% nationally compared to this point last year.[8]

The national trend echoes locally in Kansas City. In 2014, multifamily starts across the Metro reached their highest levels since 2001 with 3,638 starts recorded, nearly 40% over the average observed in the past two decades.[3] In terms of starts, the Metro is still on pace for a year that is significantly above average, though numbers for the first five months of 2015 are about 7% lower than they were at this time last year. Whether or not this decrease in starts is indicative of a larger trend, completions are on track to reach a total of 2,900 this year, an increase of 28% over last year, and are expected to remain strong over the next two years.[4]

The current crop of new apartment units will undoubtedly stress the market's ability to absorb new product, but who will feel the greatest impact in an event of hyper-supply? Both nationally and locally, the new wave of multifamily development is characterized by the construction of class A luxury apartments. Of the approximately 4,400 units under construction last year in the Kansas City Metro, the overwhelming majority are categorized as class A.[5] Because of this, it seems clear that class A multifamily built in the last 10-12 years will bear the brunt of the competition with newer product. In order to get an edge over existing apartment complexes, new luxury apartment developments are trending towards high quality and innovative amenities, such as massage therapy rooms, outdoor kitchens, and concierge services.

Though class A properties will be hit the hardest, an oversupply of luxury units could also depress the rents of class B & C properties to some degree. When class A rents drop, they will become affordable to the most affluent portion of class B renters, who will flock to the higher quality product. However, the size of that portion will depend largely on the extent of the drop in class A rents, and they will have to drop a long way before they become affordable to the majority of today's class B renters. According to Costar Analytics, the average rent for a class A apartment in the Kansas City

Continued on the next page.

Data Sources: [1]CoStar: Total existing space, for all retail and office types, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2014 & 2015 percentages. [3]Kansas City Area Development Council. [4]City of Overland Park, Kansas. [5]Creighton Economic Forecasting Group. Survey ranges from 0-100 with a score of 50 considered growth neutral. Under 50 indicates a contracting economy for the next three to six months. Mid-America survey states are Kansas, Missouri, Arkansas, Iowa, Minnesota, Nebraska, North Dakota, Oklahoma and South Dakota. [6]U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. [7]Kansas City Regional Association of Realtors. Average sales price of new & existing homes. Sources referenced in the article can be furnished upon request.

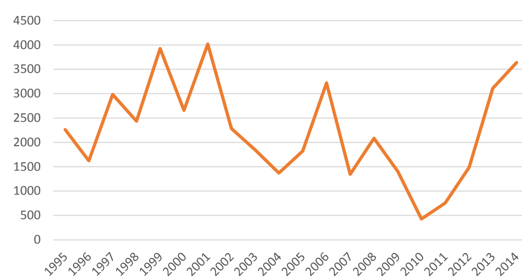
Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail [1]			
	Q2 2014	Q2 2015	% Chg
Total GLA (s.f.)	110,426,354	111,373,682	1%
Avg Lease Rate	$12.54	$12.39	-1%
Avg Occupancy Rate	91.2%	92.2%	1%

KC's Largest Lease Signings YTD[1]		
Location	Tenant	Size
600 NE Barry Road	At Home	84,000 s.f.
14401 Metcalf Ave.	Boundless	36,284 s.f.
State 50 Shopping Center	GENX	30,046 s.f.

Avg. Total Retail Vacancy [1]		Avg. Lease Rate [1]
Period	Vacancy Rate	Lease Rate
Q2 2015	11.2%	$12.39
Q2 2014	11.6%	$12.54
Q2 2013	11.4%	$12.27
Q2 2012	11.7%	$12.37

Multifamily Construction Starts (KC Metro)



National & Regional Trends

U.S. Food & Retail Sales [4]		Business Conditions Index [5]			
Year	In Billions	2015	April	May	June
Q2 2015	$ 1,324.0	Missouri	54.4	50.7	50.1
Q2 2014	$ 1,302.1	Kansas	51.2	49.7	50.1
Q2 2013	$ 1,246.3	Mid-America	52.7	50.4	53
Q2 2012	$ 1,195.7				

Unemployment Rate [6]			Consumer Price Index [6]			
June	'14	'15	2015	April	May	June
Midwest	5.8	5	Midwest	223.8	224.7	226
U.S.	6.1	5.3	U.S. City Avg	236.6	237.8	238.6

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Metro is about 33% higher than the average rent for a class B apartment. Though this gap will help insulate B properties from a small decrease in class A rents, a dramatic fall in class A rents could significantly diminish the pool of potential class B tenants and therefore, the rents that these lower class apartments can demand.

Developers realize that over-saturation is an issue to be considered on a submarket-by-submarket basis, and have set their sights on areas that have been underserved over the last 20 to 30 years. Among Kansas City's historically underserved multifamily submarkets, Kansas City's Downtown has received the most attention. Spurred by The Cordish Comanies' Power and Light District and the focused efforts of the City of Kansas City, Missouri, the Metro's central business district has been the center of a revitalization unrivaled by any other area in the Metro. The CBD and neighboring River Market and Crossroads areas currently have 1,807 units under construction, accounting for nearly half of the total Metro-wide.[6] The majority of these projects are conversions of historic office and industrial buildings, though new construction is underway as well, such as Cordish's Two Light, a 300 unit building that will command $2 per square foot rents when it opens in 2018.[7] Vacancy rates in this submarket are impressively low at 2.3%, though the impact of the massive amount of new product on the horizon remains to be seen[6].

Overland Park's Northern Metcalf Avenue Corridor, stretching roughly from 55th street to 103rd street, has witnessed little apartment development in recent decades.[6] However, that is beginning to change with several large new projects in the works. Three new, large projects surrounding Overland Park's historic downtown area by 80th Street and Metcalf Avenue are currently in the planning stage as well. Planned developments by EPC Real Estate Group, Hunt Midwest and Hal Shapiro's REAL Property Group will add 480 units to this submarket. The completion of these projects will attract a new demographic of tenants, who are drawn to the area's restaurants and boutique shopping and are able to afford rents in the $1.40-1.55 per square foot range.

A few miles to the South, the area around 95th and Metcalf is garnering interest from apartment developers for the first time in several years. Catalyzed by LANE4's Central Square, a massive mixed-use project that will feature approximately 500,000 square feet of retail, including several entertainment, dining and boutique shopping options, two large apartment complexes are currently in the planning phase. LANE4 plans to develop up to 570 apartments as part of the Central Square Development, and an additional 290 units are planned to be added as part of Launch Development Inc.'s Promontory at 91st and Metcalf. The influx of new projects along Metcalf is sure to bring new life to this corridor, as neither the 95th and Metcalf area, nor the Downtown Overland Park submarket has seen the completion of a new large-scale apartment complex in nearly 30 years.

In line with the trend of walkability, Lenexa's City Center Development has sparked an explosion in development of multifamily units near the 87th and Renner area. Through strong commitment by the City of Lenexa, a new downtown area is being actively created, and multifamily investors hope this will continue to attract a wave of new residents. Over the past 6 years, over 900 units have been added to this submarket and another 562 units are scheduled to be delivered over the next two years.

The current wave of apartment development has turned many formerly underserved markets into some of the most desirable locations for new multifamily. As these and other top submarkets begin to reach capacity, developers will be forced to dig even deeper into areas that have been largely ignored by the current wave of construction. However, the prospects for such new development are clouded by the threat of hyper-supply. Rents and vacancy rates remain strong for the time being, but many analysts estimate we are at or nearing the peak of the multifamily boom. Though the exact timing of said peak is the subject of much debate, apartment investors and developers, both locally and nationally, are bracing for the remainder of the decade to be significantly more challenging than the past few years.

***Weston Buckley J.D.**, Associate*

About LANE4 Property Group

LANE4 provides its clients the best position from which to succeed. The firm offers a competitive advantage in tenant representation, project leasing, property management, investment sales, receivership, project management, and development. These comprehensive services allow our clients to streamline their time and optimize their investments. From the initial market analysis through the grand opening and operation, the team at LANE4 executes each step of the process with skill and professionalism.

Our team has forged strong relationships with our constituents: tenants, investors, municipalities, architects, engineers, attorneys, contractors, and developers. This experience, dedication, and focus – combined with creativity and passion – is the LANE4 formula that maximizes our partners' results.

Kansas City Housing

Average Home Price [7]

County	June 2014	June 2015	% Chg
Cass County, MO	$176,911	$183,205	4%
Clay County, MO	$181,766	$190,898	5%
Jackson County, MO	$148,880	$171,963	16%
Platte County, MO	$245,939	$241,207	-2%
Johnson County, KS	$279,685	$293,598	5%
Leavenworth County, KS	$166,996	$198,790	19%
Miami County, KS	$181,972	$216,586	19%
Wyandotte County, KS	$102,357	$114,097	11%
Kansas City Region	**$201,806**	**$212,984**	**6%**

Residential Building Permits- Year To Date [8]

June	2014	2015	% Chg
Cass County, MO	141	126	-11%
Clay County, MO	558	785	41%
Jackson County, MO	1228	715	-42%
Platte County, MO	564	202	-64%
Johnson County, KS	1799	1592	-12%
Leavenworth County, KS	124	107	-14%
Miami County, KS	117	84	-28%
Wyandotte County, KS	28	65	132%
Kansas City Region	**4559**	**3676**	**-19%**

Giving Back

This quarter, LANE4 employees volunteered their time for the Rosedale Development Association. The team got their hands dirty clearing away brush, growth and weeds from the Rosedale WWI Memorial Arch.

Located just north of our 39Rainbow development, Rosedale is a vibrant and unique community where businesses thrive, diversity is celebrated, healthy lifestyles are supported, and green development is encouraged.

For more information about the Rosedale Area, visit **www.rosedale.org**.

For. Your. Information.

LANE4 Continues to Grow!

Welcome Mattie and Tina!

Earlier this year, LANE4 made two additions to the team.

Mattie Crossland joined the development team as Project Manager, a role new to the company.

LANE4 Property Management continues to expand as well, with the addition of a second Assistant Property Manager, **Tina Amato**.

Both Mattie and Tina have quickly become irreplaceable members of the LANE4 team.